



**REPORT OF THE STATEWIDE SINGLE AUDIT
OF THE
COMMONWEALTH OF KENTUCKY
FOR THE YEAR ENDED JUNE 30, 1999**

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

May 15, 2000

To the People of Kentucky
The Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet

As Auditor of Public Accounts, I am pleased to transmit herewith the report of our Statewide Single Audit of the Commonwealth of Kentucky for the year ended June 30, 1999. This report contains our independent auditor's report on the Commonwealth's supplementary Schedules of Expenditures of Federal Awards and our reports on the Commonwealth's compliance with laws and regulations and on internal control over financial reporting and compliance. Accompanying this report is the Commonwealth's Comprehensive Annual Financial Report, which contains our independent auditor's report on the Commonwealth's general-purpose financial statements issued December 30, 1999.

On behalf of the Division of Financial Audit of the Office of the Auditor of Public Accounts, I wish to thank the employees of the Commonwealth for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Patti Jones-Dixon, Acting Director, Division of Financial Audit, or me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", written over a horizontal line.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

EXECUTIVE SUMMARY

The Statewide Single Audit of the Commonwealth of Kentucky For the Year Ended June 30, 1999

BACKGROUND: The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to Federal moneys received by the Commonwealth.

EXPENDITURES: 44 State agencies expended Federal awards in the following manner:

- \$4,127,067,597 in cash from 24 Federal grantors
- \$ 513,370,857 in non-cash grants (i.e., food stamps)

FINDINGS:

Financial Statement Accounts

Unqualified opinion

Compliance:

No instances of noncompliance.

Internal Control Over Financial Reporting:

Thirty (30) reportable conditions, inclusive of one (1) material weakness.

Federal Awards and Schedule of Expenditures of Federal Awards *Unqualified opinion*

Compliance:

Five (5) instances of noncompliance.

Internal Control Over Compliance:

Eleven (11) reportable conditions, none of which are material weaknesses.

Schedule of Expenditures of Federal Awards

Qualified opinion

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Inadequate accounting procedures
- Inaccurate, incomplete transaction documentation
- Inadequate technology procedures, policies, and security
- Noncompliance with federal and state laws and regulations

Agency With Material Weakness:

Cabinet for Workforce Development

Agencies With Reportable Conditions:

Office of the Kentucky State Treasurer
Cabinet for Families and Children
Finance and Administration Cabinet
Governor's Office for Technology
Cabinet for Health Services
Transportation Cabinet
Cabinet for Workforce Development

Agencies With Noncompliances:

Cabinet for Families and Children
Cabinet for Workforce Development

CONTENTS

| | Page |
|---|-------------|
| <u>INTRODUCTION</u> | |
| Introduction | 10 |
| Using This Report | 10 |
| Schedule of Expenditures of Federal Awards | 11 |
| Schedule of Findings and Questioned Costs | 11 |
| Summary Schedule of Prior Audit Findings | 11 |
| Audit Approach | 12 |
| Status of State Universities | 13 |
| Contacting the Commonwealth | 13 |
| List Of Abbreviations/Acronyms Used In This Report | 14 |
| <u>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u> | |
| Schedule of Expenditures of Federal Awards – By Federal Grantor: | |
| U.S. Department of Agriculture | 19 |
| U.S. Department of Commerce | 21 |
| U.S. Department of Defense | 21 |
| U.S. Department of Housing and Urban Development | 22 |
| U.S. Department of the Interior | 23 |
| U.S. Department of Justice | 23 |
| U.S. Department of Labor | 26 |
| U.S. Department of Transportation | 26 |
| U.S. Appalachian Regional Commission | 28 |
| U.S. Equal Employment Opportunity Commission | 28 |
| U.S. General Services Administration | 28 |
| U.S. National Foundation on the Arts and the Humanities | 29 |
| U.S. Small Business Administration | 29 |
| U.S. Tennessee Valley Authority | 30 |
| U.S. Environmental Protection Agency | 30 |
| U.S. Department of Energy | 31 |
| U.S. Federal Emergency Management Agency | 32 |
| U.S. Department of Education | 33 |
| U.S. National Archives and Records Administration | 37 |
| U.S. Department of Health and Human Services | 37 |
| U.S. Corporation for National and Community Service | 43 |
| U.S. Social Security Administration | 44 |
| U.S. Army Corps of Engineers | 44 |
| Other Federal Assistance | 44 |

CONTENTS

(Continued)

| | <u>Page</u> |
|--|--------------------|
| Schedule of Expenditures of Federal Awards – By State Agency: | |
| Administrative Office of the Courts | 45 |
| Department of Agriculture | 45 |
| Department of Alcoholic Beverage Control | 46 |
| Kentucky Arts Council | 47 |
| Office of the Attorney General | 47 |
| Kentucky Center for the Arts | 48 |
| Commission for Children with Special Health Care Needs | 49 |
| Commonwealth Small Business Development Corporation | 49 |
| Department of Community Development | 50 |
| Department of Corrections | 50 |
| Crime Victims Compensation Board | 51 |
| Department of Education | 51 |
| Kentucky Educational Television | 54 |
| Cabinet for Families and Children | 55 |
| Finance and Administration Cabinet | 58 |
| Department of Fish and Wildlife Resources | 59 |
| Office of the Governor | 59 |
| Cabinet for Health Services | 59 |
| Kentucky Heritage Council | 64 |
| Kentucky Higher Education Assistance Authority | 65 |
| Kentucky Higher Education Student Loan Corporation | 65 |
| Kentucky Historical Society | 65 |
| Department of Housing, Buildings, and Construction | 66 |
| Kentucky Housing Corporation | 66 |
| Kentucky Commission on Human Rights | 67 |
| Kentucky Infrastructure Authority | 67 |
| Justice Cabinet - Division of Grants Management | 68 |
| Department of Juvenile Justice | 68 |
| Labor Cabinet | 70 |
| Department for Libraries and Archives | 70 |
| Department for Local Government | 70 |
| Department of Military Affairs | 72 |
| Department of Mines and Minerals | 73 |
| Natural Resources and Environmental Protection Cabinet | 73 |
| Council on Postsecondary Education | 76 |
| Department of Public Advocacy | 77 |
| Public Service Commission | 78 |
| Revenue Cabinet | 78 |
| Department of State Police | 78 |
| Tourism Development Cabinet | 79 |

CONTENTS

(Continued)

| | <u>Page</u> |
|--|--------------------|
| Schedule of Expenditures of Federal Awards – By State Agency (Continued): | |
| Transportation Cabinet | 79 |
| Department of Travel | 80 |
| Unified Prosecutorial System | 81 |
| Cabinet for Workforce Development | 81 |
| Notes To The Schedule Of Expenditures Of Federal Awards | 84 |

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

| | |
|---|-----|
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 105 |
| Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on Schedule of Expenditures of Federal Awards | 108 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

| | |
|--|------------|
| Section 1 - Summary of Auditor's Results | 113 |
| Section 2 - Financial Statement Findings and Questioned Costs | 119 |

Reportable Conditions Relating to Internal Controls and/or Compliance:

| | |
|--|-----|
| <u>FINDING 99-C&I-1</u> : Treasury Should Improve Procedures For Storing Supporting Documentation For The Reconciliation Process | 119 |
| <u>FINDING 99-CFC-2</u> : The Cabinet For Families And Children Should Maintain Accurate And Complete Documentation To Support Information Reported In the Commonwealth's Financial Statements | 121 |
| <u>FINDING 99-CFC-3</u> : The Division Of Child Support Enforcement Should Retain Monthly Trial Balance Reports To Support The Accounts Receivable Balances Reported In The Financial Statements | 125 |
| <u>FINDING 99-FAC-4</u> : The Division Of Statewide Accounting Services Should Ensure Only Authorized Budgetary And Transaction-Specific Overrides Are Made To System Tables | 127 |

CONTENTS

(Continued)

Page

Section 2 - Financial Statement Findings and Questioned Costs (Continued)

Reportable Conditions Relating to Internal Controls and/or Compliance (Continued):

| | |
|--|-----|
| <u>FINDING 99-FAC-5</u> : The Finance And Administration Cabinet Should Develop A Policy Requiring Employees To Use A Password-Protected Screensaver | 130 |
| <u>FINDING 99-FAC-6</u> : The Division Of Statewide Accounting Services Should Follow Established Procedures To Ensure Only Authorized Changes Are Made To System Tables | 131 |
| <u>FINDING 99-FAC-7</u> : The Division Of Contracting And Administration Should Improve Internal Controls Relating To The Use Of Change Orders In Construction Contracts | 134 |
| <u>FINDING 99-FAC-8</u> : The Division Of Contracting And Administration Should Ensure Established Policies For All Capital Construction Bid Requirements Are Followed | 142 |
| <u>FINDING 99-FAC-9</u> : The Finance And Administration Cabinet Should Implement Policies And Procedures For Maintaining Adequate Supporting Documentation For All Expenditure Transactions | 146 |
| <u>FINDING 99-FAC-10</u> : The Finance And Administration Cabinet Should Improve Internal Controls Over Capital Construction Expenditure Transactions | 150 |
| <u>FINDING 99-FAC-11</u> : The Finance And Administration Cabinet Should Improve Efforts In Effecting Equal Employment Opportunity Contract Compliance | 155 |
| <u>FINDING 99-FAC-12</u> : The Finance And Administration Cabinet Should Provide Sufficient Supporting Documentation For Capital Construction Expenditure Transactions | 163 |
| <u>FINDING 99-FAC-13</u> : The Finance And Administration Cabinet Should Implement Policies And Procedures Relating To Small Or Small Minority Business Set-Aside Laws | 167 |

CONTENTS

(Continued)

Page

Section 2 - Financial Statement Findings and Questioned Costs (Continued)

Reportable Conditions Relating to Internal Controls and/or Compliance (Continued):

| | |
|--|-----|
| <u>FINDING 99-FAC-14</u> : The Division Of Contracting And Administration Should Maintain Timely Affidavits Of Completion | 172 |
| <u>FINDING 99-FAC-15</u> : The Division Of Contracting And Administration Should Improve Monitoring Of Compliance Regarding The Reporting Of Kentucky Revised Statute Violations | 174 |
| <u>FINDING 99-FAC-16</u> : The Division Of Contracting And Administration Should Implement Procedures For All Applicable Sections Of The Kentucky Revised Statutes | 177 |
| <u>FINDING 99-FAC-17</u> : The Finance And Administration Cabinet Should Provide Clear Language Regarding Enterprise Zones And Use Tax Exemptions Where Applicable | 181 |
| <u>FINDING 99-FAC-18</u> : The Division Of Contracting And Administration Should Improve Policies Concerning Insurance Coverage For Construction Contracts | 183 |
| <u>FINDING 99-FAC-19</u> : The Finance And Administration Cabinet Should Improve Monitoring For Duplicate Payments | 185 |
| <u>FINDING 99-FAC-20</u> : The Finance And Administration Cabinet Should Improve Monitoring For Split Purchase Arrangements | 187 |
| <u>FINDING 99-FAC-21</u> : The Governor's Office For Technology Should Improve Internal Controls For Ensuring Adequate Documentation To Support Agency Transactions | 191 |
| <u>FINDING 99-GOT-22</u> : The Governor's Office For Technology Should Restrict Programmer Access To Production Libraries | 193 |
| <u>FINDING 99-CHS-23</u> : The Year-End Cash Balance For The County Health Central Bank Account Should Be Reported | 194 |
| <u>FINDING 99-CHS-24</u> : The Office Of The General Counsel Should Improve Controls Over Contingent Liabilities | 195 |

CONTENTS

(Continued)

Page

Section 2 - Financial Statement Findings and Questioned Costs (Continued)

Reportable Conditions Relating to Internal Controls and/or Compliance (Continued):

FINDING 99-CHS-25: The Department Of Medicaid Services Should Improve Control Procedures Over The Medical Assistance Program 196

FINDING 99-CHS-26: The Department Of Medicaid Services Should Strengthen Controls Over The Kentucky Health Care Program 198

FINDING 99-CHS/CDP-27: Custom Data Processing Inc. Should Require Formal Requests For All Program Changes 201

FINDING 99-CWD-28: The Division of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets 202

FINDING 99-CWD-29: The Division of Unemployment Insurance Should Strengthen Controls Over Cash 204

Material Weaknesses/Noncompliances Relating to Internal Controls and/or Compliance:

FINDING 99-CWD-30: The Division Of Unemployment Insurance Should Ensure Computer Accounting Systems Are Operating Effectively And Amounts Reported From Those Systems Can Be Supported 207

Section 3 - Federal Award Findings and Questioned Costs

Reportable Conditions Relating to Internal Controls and/or Compliance:

FINDING 99-CFC-31: The Cabinet For Families And Children Should Strengthen Controls In Preparing The Schedule Of Expenditures Of Federal Awards 210

FINDING 99-CFC-32: The Cabinet For Families And Children Should Reimburse The U.S. Department For Health And Human Services For Improper Payments 213

FINDING 99-CFC-33: The Cabinet For Families And Children Should Reconcile All Payments That Require Adjustments 215

CONTENTS

(Continued)

Page

Section 3 - Federal Award Findings and Questioned Costs (Continued)

Reportable Conditions Relating to Internal Controls and/or Compliance (Continued):

| | |
|--|-----|
| <u>FINDING 99-CFC-34</u> : The Cabinet For Families And Children's Division Of Child Care Should Implement Improved Application System Controls For KCCMS | 217 |
| <u>FINDING 99-CFC-35</u> : The Department For Disability Determination Services Should Improve Program Modification Procedures | 223 |
| <u>FINDING 99-CHS-36</u> : The Department For Medicaid Services Should Improve The Controls Over Drug Rebate Billings, Collections, And Recording | 227 |
| <u>FINDING 99-CHS-37</u> : The Cabinet For Health Services Should Improve Subrecipient Monitoring Procedures At The Department For Public Health | 229 |
| <u>FINDING 99-TC-38</u> : The Division Of Right Of Way Should File All Real Property Deeds In The Project Parcel Files Timely | 231 |
| <u>FINDING 99-CWD-39</u> : The Office Of Training And ReEmployment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation | 233 |
| <u>FINDING 99-CWD-40</u> : The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs | 236 |
| <u>FINDING 99-CWD-41</u> : The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Reports Is Accurate | 241 |

Material Weaknesses/Noncompliances Relating To Internal Controls and/or Compliance:

| | |
|---|-----|
| <u>FINDING 99-CFC-42</u> : The Cabinet For Families And Children Should Monitor Subrecipients Of TANF Funds In Accordance With OMB Circular A-133 | 244 |
|---|-----|

CONTENTS

(Continued)

Page

Section 3 - Federal Award Findings and Questioned Costs (Continued)

Material Weaknesses/Noncompliances Relating to Internal Controls and/or Compliance (Continued):

| | |
|--|-----|
| <u>FINDING 99-CFC-43:</u> The Cabinet For Families And Children Should Establish Specific Written Policies And Procedures To Ensure That Proper Documentation From Subrecipients Is Submitted To The Agency | 246 |
| <u>FINDING 99-CWD-44:</u> The Office Of Training And ReEmployment Should Comply With Job Training Partnership Act Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings | 250 |
| <u>FINDING 99-CWD-45:</u> The Department For Adult Education And Literacy Should Ensure Applicable Subrecipient Audits Are Performed And Prompt Action Is Taken On Audit Findings | 253 |
| <u>FINDING 99-CWD-46:</u> The Kentucky Office Of School To Work Should Comply With School To Work And OMB Circular A-133 Subrecipient Monitoring Requirements | 255 |
| <u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u> | 258 |
| <u>APPENDIX</u> | |
| List Of Agencies Audited As Part Of The Single Statewide Audit Of the Commonwealth | 277 |

INTRODUCTION

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999**

Introduction

The Auditor of Public Accounts, acting as principal auditor in conjunction with various certified public accounting firms, annually performs a single statewide audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with Federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Public Law 104-156, referred to as the Single Audit Act Amendments of 1996, is effective for fiscal years beginning after June 30, 1996.

Using This Report

The reporting package includes the Financial Statements and Schedule of Expenditures of Federal Awards, Summary Schedule of Prior Audit Findings, Auditor's Reports, and Corrective Action Plan. For the year ended June 30, 1999, the Single Audit Report is presented in two volumes. The Comprehensive Annual Financial Report (CAFR), which contains the general-purpose financial statements and the auditor's report thereon, dated December 30, 1999, has been issued under separate cover. The CAFR contains an Introductory Section which discusses the component units and discretely presented component units of the Commonwealth; the economic conditions and outlook for the Commonwealth; the major initiatives authorized by the State legislature; and financial analysis of revenues and expenditures on a budgetary and a GAAP Basis. Debt administration, cash management, risk management, capital projects, proprietary funds, pension trust fund, university and college funds, general fixed asset policies are also discussed in the Introductory Section of the CAFR. The Introductory Section of CAFR is followed by the Commonwealth's Financial Statements, Notes to the Financial Statements, and a Statistical Section.

The Single Audit Report, the second volume, contains the auditor's reports on compliance and internal control over financial reporting, on compliance and internal control over compliance with requirements applicable to major Federal programs, and on the Schedule of Expenditures of Federal Awards. The Single Audit Report also contains the Schedule of Expenditures of Federal Awards, Schedule of Findings and Questioned Costs (including Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs), and the Summary Schedule of Prior Audit Findings. The corrective action plans for current year findings are reported in the Schedule of Findings and Questioned Costs.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Schedule of Expenditures of Federal Awards

This report contains two Schedules of Expenditures of Federal Awards which are identical except for the way they are organized. The first is organized by Federal Grantor (CFDA number) and the second is organized by the State agency expending the Federal funds. The Notes to the Schedule of Expenditures of Federal Awards follows the Schedules to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Federal Grant Accounting Subsystem of the Statewide Accounting and Reporting System (STARS), the Auditor of Public Accounts requested all state agencies (excluding state universities) to prepare worksheets of Federal financial assistance, both cash and noncash. The source of these worksheets included STARS, agency accounting systems, agency manual records, etc. The agencies were also asked to reconcile the worksheets to STARS and to Federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three parts, the Summary of Auditor's Results, Financial Statement Findings and Questioned Costs, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the audit opinions on the Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control over Financial Reporting, Internal Control over Compliance for Federal awards and Compliance for Federal awards. Each audit finding number and the audit finding's classification (as reportable or material) is provided as part of the audit opinion summary. Major programs audited and Type B programs audited as major are listed on the Summary of Auditor's results also. The second part is the Financial Statement Findings and Questioned Costs. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to Federal awards. Generally, the State agency, CFDA number and program, Federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions are presented first, then material weaknesses/noncompliances.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1998 (as well as any previous finding which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Summary Schedule of Prior Audit Findings (Continued)

year ended June 30, 1999. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable or material. The findings of each classification (reportable and material) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid. If a finding has been re-classified, from material to reportable for instance, the finding will appear in the material finding section of the Summary schedule and the comment will indicate the reclassification.

Audit Approach

Our audit was conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of the statewide single audit for the year ended June 30, 1999, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards (excluding state universities, as discussed below) in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Commonwealth's organizational units and administrative bodies, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major Federal financial assistance program to obtain reasonable assurance that the Commonwealth administers its major Federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

Audit Approach (Continued)

The Auditor of Public Account's office conducted the audit of internal controls focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the General-Purpose Financial Statements of the Commonwealth.
- Determining if the Commonwealth has internal controls to provide reasonable assurance that it is managing the Federal assistance programs in compliance with applicable laws and regulations.

Status of State Universities

The Single Audit Act Amendments permit the single audit to cover the entire operations of the entity or include a series of audits covering departments, agencies, or other organizational units expending Federal awards. The agencies audited as part of the Single Statewide Audit of Kentucky are listed in the appendix. The Commonwealth has elected to exclude state universities from the statewide single audit, except as part of the audit of the general-purpose financial statements. Thus, state universities are not included in the accompanying Schedule of Expenditures of Federal Awards and reports on internal control and compliance. It should be noted, however, that state universities are still required to have audits made in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Contacting the Commonwealth

If additional copies of the Single Statewide Audit of Kentucky are required, please contact Mona Logsdon, Open Records Administrator, with the Auditor of Public Accounts Office at (502) 564-5841. If copies of the CAFR for the fiscal year ended June 30, 1999 are required, please contact John P. McCarty, Finance and Administration Cabinet Secretary, at (502) 564-4240.

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

| | |
|--------------|--|
| A/E | Architects/Engineers |
| ACF | Administration for Children and Families, U.S. Department of Health and Human Services |
| AFR | Annual Financial Report |
| AIDS | Acquired Immunodeficiency Virus Syndrome |
| AMLRL | Abandoned Mine Land Reclamation |
| APA | Auditor of Public Account's Office |
| C/A | Department of Facilities Management, Division of Contracting and Administration |
| C&I | Cash and Investments |
| CAFR | Comprehensive Annual Financial Report |
| CAMRA | Complete Asset Management, Reporting, and Accounting System |
| CAP-SSSE | Community Assistance Program – State Support Services Element |
| CCDF | Child Care and Development Fund |
| CDP | Custom Data Processing, Inc |
| CFC | Cabinet for Families and Children |
| CFDA | Catalog of Federal Domestic Assistance |
| CFR | Code of Federal Regulations |
| CHCBA | County Health Central Bank Account |
| CHR | Cabinet for Human Resources |
| CHS | Cabinet for Health Services |
| CICS | Customer Information Control System |
| Commonwealth | Commonwealth of Kentucky |
| CPAS | Claims Processing and Assessment System |
| CWD | Cabinet for Workforce Development |
| CWST | Check Writer Status Table |
| DAEL | Department for Adult Education and Literacy |
| DB2 | Data Base (software package) |
| DCC | Division of Child Care |
| DCSE | Division of Child Support Enforcement |
| DCTL | Document Control Table |
| DDS | Disability Case Tracking System |
| DES | Department for Employment Services |
| DIS | Department of Information Systems |
| DMS | Department of Medicaid Services |
| DOA | Division of Accounts |

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

| | |
|--------|--|
| DPH | Department of Public Health |
| DSAS | Division of Statewide Accounting Services |
| DSH | Disproportionate Share Payments |
| DVOP | Disabled Veterans' Outreach Program |
| EDGAR | Education Department General Administrative Regulations |
| EEO | Equal Employment Opportunity |
| EKCEP | Eastern Kentucky Concentrated Employment Program |
| ETA | Employment And Training Administration (of the U.S. Department of Labor) |
| FAC | Finance and Administration Cabinet |
| FDA | Food and Drug Administration |
| FHA/VA | United States Farmers' Home Administration/Veterans' Administration |
| FHWA | Federal Highway Administration |
| FM | Fiscal Month |
| FMNP | Farmers' Market Nutrition Program |
| FNS | Food and Nutrition Services |
| F.O.B. | Freight On Board |
| FQ | Fiscal Quarter |
| FY | Fiscal Year |
| GASB | Governmental Accounting Standards Board |
| GOPM | Governor's Office for Policy and Management |
| GOT | Governor's Office for Technology |
| HB | House Bill |
| HIV | Human Immunodeficiency Virus |
| HMPG | Hazard Mitigation Grant Program |
| HUD | U.S. Department of Housing and Urban Development |
| HVAC | Heating, Ventilation, and Air Conditioning |
| IFLOWS | Integrated Flood Observing and Warning System |
| ID | Identification |
| IT | Information Technology |
| JQSR | JTPA Quarterly Status Report |
| JTPA | Job Training Partnership Act |
| JV | Journal Voucher |
| KAPS | Kentucky Automated Purchasing System |
| KAR | Kentucky Administrative Regulation |
| KASES | Kentucky Automated Support and Enforcement System |
| KCA | Kentucky Automated Claims System |
| KCCMS | Kentucky Child Care Management System |

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

| | |
|-----------|---|
| KCL | Kentucky Claims Initiative |
| KEWES | Kentucky Electronic Workplace for Employment Services |
| KHCP | Kentucky Health Care Program |
| KHESLC | Kentucky Higher Education Student Loan Corporation |
| KOSTW | Kentucky Office of School to Work |
| KPMG | Klynveld Peat Marwick Goerdeler |
| KRS | Kentucky Revised Statutes |
| KSFB | Kentucky State Fair Board |
| KWPCC | Kentucky Wood Products Competitive Corporation |
| KY | Kentucky |
| LHD | Local Health Department |
| MAP | Medicaid Assistance Program |
| MARS | Management Administrative and Reporting System |
| MCHS | Maternal and Child Health Services |
| MFE | Modernized Front End |
| NA | Not Applicable |
| NCHIP | National Criminal History Improvement Program |
| NCKC | North Central Kentucky Council |
| NREPC | Natural Resources and Environmental Protection Cabinet |
| OMB | Office of Management and Budget |
| OTR | Office of Training and ReEmployment |
| OTS | Office of Technology Services |
| OVIH | Open Vendor Invoice Header |
| P1 | Vender Payment Document in MARS |
| PATH | Projects for Assistance in Transition from Homelessness |
| PC | Personal Computer |
| PERS | Personnel Cabinet |
| Personnel | Personnel Cabinet |
| PIV | Pay-In-Voucher |
| PO | Purchase Order |
| PV | Pay-In-Voucher |
| PY | Program Year |
| QAC | Quality Assurance and Consultation |
| REV | Revenue Cabinet |
| SARA | Superfund Amendment and Reauthorization Act |
| SAS | Statements on Auditing Standards |
| SBA | Small Business Administration |
| SCUF | Service Capacity Upgrade Fund |
| SDA | Service Delivery Area |

**COMMONWEALTH OF KENTUCKY
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 1999
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

| | |
|--------|---|
| SEFA | Schedule of Expenditures of Federal Awards |
| SFY | State Fiscal Year |
| SLEB | State Law Enforcement Bureau |
| SOS | System Operation Section |
| SSG | Substate Grantee |
| SSI | Supplemental Security Insurance |
| SSWAK | Single Statewide Audit of Kentucky |
| STARS | Statewide Accounting and Reporting System |
| STW | School to Work |
| TANF | Temporary Assistance for Needy Families |
| TC | Transportation Cabinet |
| TSCA | Toxic Substances Control Act |
| TVA | Tennessee Valley Authority |
| UI | Unemployment Insurance |
| UNISYS | The corporation under contract with CHS to process Medicaid Claims |
| UPPS | Uniform Payroll Personnel System |
| U.S. | United States |
| U.S.C. | United States Code |
| USDA | United States Department of Agriculture |
| USSC | United States Supreme Court |
| WAFFR | Worker Adjustment Formula Financial Reports |
| WFDC | Workforce Development Cabinet |
| WIC | Women, Infants, and Children Program |
| Y2K | Year 2000 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS